

Message Text

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SUBJECT: PAKISTAN DEBT RESCHEDULING - PAKISTAN AMBASSADOR
TO US PRESENTS GOP CASE

REF: ISLAMABAD 4232

SUMMARY:

THE PAKISTAN AMBASSADOR CALLED ON UNDER SECRETARY COOPER
AND AID ADMINISTRATER GILLIGAN TO EXPLAIN THE GOP CASE FOR
RESCHEDULING ITS EXTERNAL DEBT. IN HIS DISCUSSION WITH
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GOVERNOR GILLIGAN HE LAID EMPHASIS ON THE NEGATIVE
ECONOMIC IMPACT IF US DOES NOT RESCHEDULE GOP DEBT AND,
WITH UNDER SECRETARY COOPER, HE STRESSED THE POLITICAL
ASPECTS OF THE SITUATION. IN BOTH MEETINGS THE AMBASSADOR
WAS ADVISED THAT IT IS NOT PRESENTLY POSSIBLE FOR THE US
TO BE RESPONSIVE TO PAKISTAN'S DEBT RESCHEDULING REQUEST
BUT MATTER COULD BE REVIEWED LATER IN THE YEAR IF ECONOMIC

CONDITIONS HAVE CHANGED. END SUMMARY.

1. ON MAY 19 PAKISTAN AMBASSADOR YAQUB KHAN CALLED ON AID ADMINISTRATOR GILLIGAN TO OUTLINE GOP'S PERCEPTION OF A CLEAR NEED FOR RESCHEDULING ITS EXTERNAL DEBT THIS YEAR. THE AMBASSADOR CITED THE LITANY OF EXTERNAL AND

INTERNAL JUSTIFICATIONS FOR DEBT RESCHEDULING AS PRESENTED IN THE GOP'S APRIL 29 MEMORANDUM ON THE SUBJECT (SEE REFTEL). HE THEN NOTED THAT GOP, DURING THE NEXT PAKISTAN FY, IS SCHEDULED TO REPAY \$110 MILLION TO THE US WHILE RECEIVING ONLY THE PROJECTED \$53 MILLION IN PL-480 ASSISTANCE. MOREOVER, OF THE TOTAL CONSORTIUM AID PROJECTED IN FY 79, ONE-HALF OF THE GROSS AID PAKISTAN RECEIVES WILL BE RETURNED TO MEMBER COUNTRIES IF NO RESCHEDULING AGREEMENT IS REACHED. LOOKING AHEAD TO 1980-83, THREE-FOURTHS OF THE TOTAL CONSORTIUM AID WOULD GO TO SERVICING ON DEBTS OWED MEMBER COUNTRIES. THE AMBASSADOR ADVISED THAT THE IMPACT OF THE DEBT REPAYMENT LOAD ON PAKISTAN WILL BE SERIOUS. THE AMBASSADOR POINTED OUT THAT SO LONG AS US AID TO PAKISTAN REMAINS SUSPENDED AND NO DEBT RELIEF WILL BE FORTHCOMING FROM THE US, THE PAKISTAN ECONOMY WILL BE IN DESPERATE STRAITS. HE ENDED HIS PRESENTATION SAYING THAT HE IS CERTAIN THAT THE LAST THING USG DESIRED WAS TO AFFECT THE STABILITY OF THE REGION.

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2. GOVERNOR GILLIGAN, IN RESPONSE, NOTED THAT THE AMBASSADOR IS AWARE OF US POSITION ON DEBT RESCHEDULING. HE ALSO EXPLAINED WHY IT WOULD NOT BE POSSIBLE FOR THE US TO BE FORTHCOMING ON THE GOP DEBT RELIEF REQUEST AT THE JUNE 1-2 CONSORTIUM MEETING IN PARIS. THE AMBASSADOR WAS TOLD THAT CONGRESS HAS LAID DOWN CERTAIN STRUCTURES AS TO WHAT THE USG CAN AND CANNOT DO IN THE REALM OF DEBT RELIEF. THE GOVERNOR EXPLAINED THAT HIS AGENCY WISHES TO BE AS HELPFUL TO PAKISTAN AS POSSIBLE AND WOULD BE WILLING TO RE-EXAMINE ITS DEBT RESCHEDULING REQUEST LATER IN THE YEAR IF BETTER EVIDENCE OF NEED COULD BE PROVIDED. HE ALSO STATED HIS HOPE THAT OUTSTANDING ISSUES BETWEEN THE TWO COUNTRIES CAN BE RESOLVED SO THAT US ECONOMIC ASSISTANCE TO PAKISTAN CAN BE RESUMED. IN MEANTIME, SO FAR AS GOP DEBT RESCHEDULING REQUEST IS CONCERNED, USG WILL DO NOTHING TO RESTRAIN OTHER COUNTRIES FROM PROVIDING DEBT RELIEF TO PAKISTAN.

3. UNDER SECRETARY COOPER, TOGETHER WITH DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL FINANCE AND DEVELOPMENT, CHARLES MEISSNER, MET MAY 23 WITH THE PAKISTAN AMBASSADOR.

HE MADE ESSENTIALLY SAME CASE FOR RESCHEDULING GOP DEBT AS HE HAD IN MEETING WITH GOVERNOR GILLIGAN, BUT EMPHASIZED THE "GRAVE POLITICAL IMPLICATIONS, ESPECIALLY AT THIS JUNCTURE, CAUSED BY THE CHANGE OF GOVERNMENT IN AFGHANISTAN AND INCREASED RUSSIAN PRESSURES IN THE AREA." THE AMBASSADOR ALSO STRUCTURED HIS PLEA IN THE CONTEXT OF OUR CENTO RELATIONSHIP AND THE US DESIRE TO PROMOTE

PEACE AND STABILITY IN SOUTH ASIA. RECENT EVENTS IN SOUTH ASIA, HE ADVISED, HAD STRENGTHENED THE HANDS OF THE LEFTISTS IN PAKISTAN AND "NOTHING COULD BE MORE CALCULATED TO AGGRAVATE THE SITUATION THEN THE BLOW" OF PAKISTAN NOT BEING GRANTED DEBT RELIEF AT THIS TIME.

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4. THE UNDER SECRETARY RESPONDED BY ASKING AMBASSADOR FOR MORE DETAILS RELATIVE TO IMPACT OF EVENTS IN AFGHANISTAN ON LEFTIST ELEMENTS IN PAKISTAN. RETURNING TO THE QUESTION OF PAKISTAN'S DEBT RESCHEDULING REQUEST, COOPER EXPLAINED THAT THE REQUEST HAD BEEN EXAMINED CAREFULLY AND WAS FOUND NOT TO BE IN A FRAMEWORK WHICH WOULD ALLOW THE USG TO RESPOND FAVORABLY. IN SHORT, PAKISTAN CANNOT MAKE THE STANDARD CASE FOR DEBT RESCHEDULING SINCE IT APPEARS NOT TO BE CONFRONTED BY AN ACUTE PAYMENTS CRISIS. HOWEVER, THE US IS AWARE THAT PAKISTAN DOES HAVE A DEBT BURDEN PROBLEM AND, HE ADVISED, THE SITUATION CAN BE RE-EXAMINED AGAIN IN DECEMBER.

5. ANALYZING PAKISTAN'S CASE FOR DEBT RESCHEDULING, UNDER SECRETARY COOPER SUGGESTED THAT THE SITUATION MAY NOT BE AS BLEAK AS THE AMBASSADOR HAD INDICATED. TAKING ALL BOP FACTORS INTO CONSIDERATION AT THIS TIME, HE COMMENTED THAT PAKISTAN'S DEBT SERVICING OBLIGATIONS ARE IN THE RANGE OF 17 PERCENT OF FOREIGN EXCHANGE EARNINGS -- "OR JUST ABOUT THE MEDIAN FOR MOST DEVELOPING COUNTRIES." REMITTANCES HAVE BEEN RUNNING BETTER THAN EXPECTED AND HOPEFULLY A CONTINUED IMPROVEMENT IN THIS TREND WILL EASE GOP'S DEBT SERVICING SITUATION.

6. UNDER SECRETARY COOPER CONCLUDED BY EXPLAINING THAT THERE ARE OTHER FACTORS WHICH USG MUST CONSIDER WHEN VIEWING PAKISTAN'S REQUEST FOR DEBT RESCHEDULING. FIRST OF ALL, POWERS GRANTED THE ADMINISTRATION BY CONGRESS IN THE FIELD OF DEBT RESCHEDULING NEED TO BE "EXERCISED" JUDICIOUSLY OR WE WILL LOSE THEM". SECONDLY THE GLENN AMENDMENT POSES A PROBLEM IN A GENERAL WAY AND HE HOPED THAT THIS ISSUE CAN BE RESOLVED FAVORABLY. MR. MEISSNER ENTERED CONVERSATION TO EXPLAIN THAT THE U.S. VIEWS

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AID AND DEBT TO BE SEPARATE ISSUES AND WE DO NOT USE DEBT RESCHEDULING AS AN AID MECHANISM. SECONDLY, UNLIKE MANY EUROPEAN COUNTRIES US DEBT RESCHEDULING PROVIDES ADDITIONAL RESERVES. IF, HE SAID, THE USG CANNOT MAKE A GOOD CASE FOR DEBT RESCHEDULING ON FINANCIAL GROUNDS, THEN "WE WOULD BE VULNERABLE TO ACCUSATIONS THAT WE PROVIDE BACKDOOR AID" IN COUNTERVENTION OF THE GLENN AMENDMENT- AND THE GENERAL INTENT OF CONGRESS. UNDER SECRETARY COOPER CONCLUDED THE APPOINTMENT BY REITERATING THE POSITION THAT THE U.S. WOULD NOT JOIN OTHER COUNTRIES

SHOULD THEY DECIDE TO RESCHEDULE AT THE JUNE 1 AND 2 MEETING. ON EXITING THE OFFICE MEISSNER RESPONDED TO A QUESTION BY STATING THE U.S., CONVERSELY, HAD NO INTENTION OF BLOCKING ANY INITIATIVES BY OTHER COUNTRIES TO RESCHEDULE. CHRISTOPHER

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